

Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



BUY			
Target price 2020-IV:		P\$ 57.00	
Close price (04/28/2020):		P\$ 54.00	
Dividend Est.		P\$ 5.00	
Total appreciation (with dividends)		14.8%	
Market cap. (million P\$):		46,210	
Max 3M	P\$ 59.20	P/U	12.8x
Min 3M	P\$ 53.00	EV/EBITDA	8.4x
Chg % 3M	-7.2%	ROIC	43.3%
P\$ Millions	2020-I	2019-I	YoY
Income	3,261.9	3,626.0	-12.4%
EBITDA	1,530.8	1,642.5	-23.3%

Executive summary

- Corporación Moctezuma (Quote code: CMOCTEZ) presented results favored by the fluctuation of the exchange rate, its positions in foreign currency offset the negative marginal effect that income had compared to the quarter of the previous period.

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Analysis

Strong report. Corporación Moctezuma (Quote code: CMOCTEZ) presented results favored by the fluctuation of the exchange rate, its positions in foreign currency offset the negative marginal effect that income had compared to the quarter of the previous period.

Percentage contraction in concrete sales. The quarterly income of Corporación Moctezuma totaled P\$3,261.9 million, which represents a decrease of -0.6% compared to the same period of the previous year, mainly caused by the contraction of the Mexican construction industry. By division, revenues from cement sales increased + 0.96% YoY, however, revenues from concrete sales decreased -9.49% YoY.

Table 1. Results by business segment

2020-I	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	\$ 2,815.97	0.96%	86%	\$ 53.55	47.80%
Concrete	\$ 445.97	-9.49%	14%	\$ 15.63	1016.40%
Corporate		n.a.	0%		0.00%
Total	\$ 3,261.94	-0.61%	100%	\$ 69.18	83.90%

Source: Signum Research with company's information

Cost of sales decreased -3.8% YoY; however, as a percentage of total sales, it represented 53.8%, a level lower than the one presented in 2019-I (55.6%). Gross profit increased + 3.3% YoY, standing at P\$1,505.4 million. Gross margin stood at 46.15%, higher by +177 bps compared to that observed in the same quarter of the previous year.

Operating profit. Derived from a positive flow of the line of other expenses for P\$14.82 million, which was compared with the negative flow of P\$3.5 million presented in the same period of the previous year, the operating profit was P\$1,373.7 million with an operating margin of 42.11%. Compared to the report presented in 2019-I, operating profit increased + 4.4% YoY, while its margin increased +202 b.p. EBITDA for the quarter increased by + 4.9% YoY and reached P\$1,304.6 million, with an EBITDA margin of 46.93% (+246.14 bps).

Net profit. The financial result for the period resulted in a net profit of P\$336 million, compared to the reported profit of P\$606 million from the previous period. Net income totaled P\$1,226.5 million, +32.6% compared to 2019-I. This was due to the significant appreciation of both the dollar (+25.32 YoY) and the euro (+22.48 YoY). The net margin was 37.6%, +942 bps YoY.

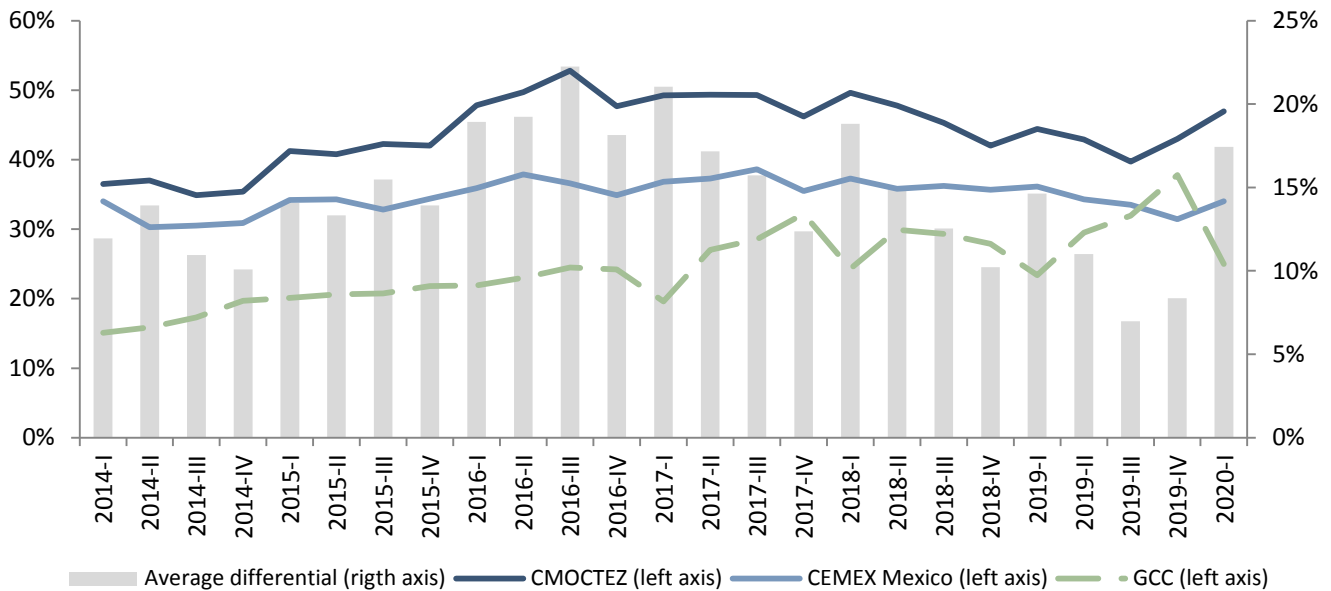
Table 2. Operational results

2020-I	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$ 1,505.40	3.3%	46.15%	177
Operating Income	\$ 1,373.70	4.4%	42.11%	202
Net Profit	\$ 1,226.50	32.6%	37.60%	942
EBITDA	\$ 1,530.80	4.9%	46.93%	247

Source: Signum Research with company's information

High profitability compared to peers. Historically, Corporación Moctezuma reflects an EBITDA margin higher than its peers, such as CEMEX México and Grupo Cementos Chihuahua (GCC). During the 2020-I Corporación Moctezuma obtained an EBITDA margin of 46.93%, while CEMEX México and GCC generated an EBITDA margin of 34% and 25% respectively. The recovery in the EBITDA margin was due to the fact that selling costs, as a percentage of total sales, decreased -3.11% compared to the previous quarter.

Graph 1. EBITDA margin: CMOCTEZ vs. its main peers



Source: Signum Research with company's information

Cash increased by +48.8% compared to 2019-I, positioning at P\$3,141.5 million, this variation was generated by the operation of the business itself and because a dividend payment was made in December 2019. It is worth mentioning that the company's products have a high profit margin.

It is important to mention that CMOCTEZ has an estimated dividend yield of 9.26% based on the last closing price and an estimated dividend of P\$5.00 per share.

We consider pertinent to emphasize that the company continues to present high levels of profitability metrics. According to our profitability analysis of companies listed on the Mexican stock market, Corporación Moctezuma was ranked among the first five most profitable Mexican public companies, measured through ROIC.

It is important to mention that CMOCTEZ profitability metrics begin to show signs of stabilization after showing notable reductions over the past year. We believe that low fuel prices could drive these metrics in the coming quarters.

Table 3. Profitability indicators

2020-IV	Rate	Δ basis points YoY
ROE*	29.6%	-46
ROA*	35.8%	-124
ROIC**	62.2%	79

Source: Signum Research,

* ROA and ROE are calculated with consolidated figures and use 12M averages on the balance sheet.

** ROIC is calculated as EBITDA / invested capital.

2020 CMOCTEZ Outlook. Although Moctezuma Corporation had a good first quarter, the effects of the pandemic were not reflected in its results and we consider that these could impact the results as of the second quarter. For this reason, we have decided to review our target price due to the financial uncertainty experienced by the current situation, the covid-19 pandemic has not ended and the financial impacts it will cause cannot yet be quantified. After this revision we decided to maintain our BUY recommendation with a target price of P\$57.00

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REPORT'S KEY

(1) Approach	S = Sectorial E = Economic Rf = Fixed Income Nt = Technical Note M = Market Em= Company Fb= REITS
(2) Geography	M = Mexico E = United States L = Latin America G = Global
(3) Temporality	P = Periodic E = Special
(4) Degree of difficulty	* = Basic ** = Intermediate *** = Advanced
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